

# **Open Joint Stock Company Concern “Kalina” and subsidiaries**

**Consolidated Financial Statements**

At June 30, 2006

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## TABLE OF CONTENTS

---

	<b>Page</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
AT JUNE 30; 2006:	
Consolidated income statement	3
Consolidated balance sheet	4
Consolidated statement of changes in shareholders' equity	5
Consolidated statement of cash flows	6

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AT JUNE 30, 2006 AND 2005 (in Roubles and in thousands)

	Notes	2006 ‘000 RUB	2005 ‘000 RUB
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Goodwill	10	175,773	71,062
Other intangible assets	11	358,830	393,194
Property, plant and equipment, net	12	2,787,454	2,246,739
Long-term investments	13	95,591	72,762
Deferred tax asset	7	136,148	147,195
CURRENT ASSETS:			
Inventories, net	14	1,833,194	2,001,197
Trade accounts receivable, net	15	1,094,248	781,409
Taxes recoverable	16	434,113	552,006
Advances paid to suppliers and prepaid expenses	17	363,237	340,554
Other receivables	15	178,315	39,685
Short-term investments		-	-
Cash and cash equivalents	18	189,414	104,749
ASSETS CLASSIFIED AS HELD FOR SALE	8	-	198,151
<b>TOTAL ASSETS</b>		<b>7,646,316</b>	<b>6,948,703</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
SHAREHOLDERS' EQUITY:			
Share capital	23	851,843	851,843
Additional Paid In Capital	23	661,378	661,378
Translation reserve		(56,179)	(21,583)
Retained earnings		2,390,498	1,914,760
Equity attributable to equity holders of the parent			
Minority interest		208,077	328,131
<b>Total equity</b>		<b>3,847,540</b>	<b>3,406,398</b>
NON-CURRENT LIABILITIES:			
Long-term loans	19	939,732	715,971
Retirement benefits obligations	20	176,131	174,296
Long-term obligations under finance lease	19	30,952	101
Deferred tax liability	7	287,780	306,631
CURRENT LIABILITIES:			
Trade accounts payable (third parties)		506,129	764,938
Other payables and accrued expenses	21	477,434	373,649
Taxes payable	16	109,961	88,851
Short-term obligations under finance lease	22	14,651	97,138
Short-term bank loans	22	1,047,930	327,286
LIABILITIES CLASSIFIED AS HELD FOR SALE	8	-	365,313
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>7,646,315</b>	<b>6,948,703</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT JUNE 30, 2006 AND 2005 (in Roubles and in thousands)

	Notes	2006 '000 RUB	2005 '000 RUB
REVENUE	4	4,977,169	3,697,143
COST OF SALES		(2,795,261)	(1,938,030)
GROSS PROFIT		2,181,908	1,759,113
Selling, general and administrative expenses	5	(1,636,394)	(1,125,072)
OPERATING PROFIT		545,514	634,040
Finance costs, net	6	(60,713)	(27,088)
Other expense		(63,837)	(9,552)
Foreign exchange (loss) gain		16,929	(50,398)
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		437,893	547,003
INCOME TAX	7	(60,960)	(90,241)
PROFIT FROM CONTINUING OPERATIONS		376,933	456,762
Profit from writing off OAO Pallada Vostok subsidiarz	8	41,628	
Loss for the period from discontinued operations			(40,150)
PROFIT FOR THE YEAR		418,561	416,612
Attributable to:			
Equity holders of the parent		419,818	414,467
Minority interest		(1,256)	2,145

## OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2006 AND 2005 (in Roubles and in thousands)

	Share Capital '000 RUB	Additional Paid In Capital '000 RUB	Translation Reserve '000 RUB	Retained Earnings '000 RUB	Total Stockholders' Equity '000 RUB
<b>Balance December 31, 2004</b>	851,843	661,378	-	1,584,261	3,097,482
Exchange difference arising from translation of foreign operations	-	-	(21,583)		(21,583)
Net income	-	-		414,467	414,467
Dividends declared	-	-		(83,968)	(83,968)
<b>Balance June 30, 2005</b>	<b>851,843</b>	<b>661,378</b>	<b>(21,583)</b>	<b>1,914,760</b>	<b>3,406,398</b>
Exchange difference arising from translation of foreign operations	-	-	(28,005)	-	(28,005)
Net income	-	-	-	236,143	236,143
Dividends declared	-	-	-	(60,270)	(60,270)
<b>Balance December 31, 2005</b>	<b>851,843</b>	<b>661,378</b>	<b>(49,588)</b>	<b>2,090,633</b>	<b>3,554,266</b>
Exchange difference arising from translation of foreign operations	-	-	(6,591)		(6,591)
Net income	-	-	-	419,818	419,818
Dividends declared	-	-	-	(119,953)	(119,953)
<b>Balance June 30, 2006</b>	<b>851,843</b>	<b>661,378</b>	<b>(56,179)</b>	<b>2,390,498</b>	<b>3,847,540</b>

**Timur Goryaev**  
Chief Executive Officer

**Alexander Petrov**  
Chief Financial Officer

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

JUNE 30, 2006 AND 2005

*(in Roubles and in thousands)*

	<b>2006</b>	<b>2005</b>
	<b>'000 RUB</b>	<b>'000 RUB</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit before income tax	437,893	547,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment and amortization of intangible assets	134,558	72,447
Loss on disposal of property, plant and equipment	8,490	5,763
Gain on disposal of long-term investment	-	(4,731)
Finance costs, net	60,714	27,088
Operating cash flow before movements in working capital	641,655	647,570
Increase in inventories	577,120	(546,290)
Increase in trade accounts receivable	31,088	(74,949)
(Increase) decrease in taxes receivable	81,884	(222,180)
Decrease in other receivables	(124,012)	(65,430)
Decrease in retirement benefits obligations	1,835	(2,035)
Increase in trade accounts payable	(495,286)	141,956
Increase (decrease) in tax liability	6,481	(45,302)
Net cash (used by) provided by operations:	720,765	(166,659)
Income tax paid	(152,202)	(72,478)
Interest paid	(58,378)	(24,703)
Net cash (used by) provided by operating activities	510,186	(263,840)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in charter capital Kalina International SA	(2,134)	-
Purchase of property, plant, equipment	(52,400)	(411,043)
Proceeds from disposal of property, plant and equipment	831	831
Acquisition of Dr. Scheller – net of cash acquired	(234,495)	(629,582)
Purchase of investment in Kit-Capital	-	-
Proceeds from part disposal of investment in Kit-Capital	-	-
Purchase of short-term investments	(2,059)	-
Proceeds from disposal of short-term investments	2,059	-
Net cash used in investing activities	(288,198)	(1,039,794)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	-	15,254
Dividends paid	(119,953)	(83,981)
Proceeds from short-term borrowings	770,048	837,856
Principal payments on short-term borrowings	(779,048)	(708,545)
Proceeds from long-term borrowings	1,239	243,713
Principal payments on long-term borrowings	(97,044)	(44,585)
Principal payments on capital lease obligations	(1,180)	(26,063)
Net cash provided by financing activities	(225,938)	233,649
Effect of foreign exchange rate changes		17,089
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(3,951)	(1,052,897)
CASH AND CASH EQUIVALENTS, beginning of period	193,365	1,157,579
CASH AND CASH EQUIVALENTS, end of period	189,414	104,682